

NCA
VOC FOR PGM/FN
BACKGROUNDER NO. 5-6340
JOHN PAXSON/CHICAGO

DECEMBER 20, 1978

CLEVELAND'S DEFAULT

ANNCR:

THE CITY OF CLEVELAND, OHIO, HAS FOUND ITSELF IN THE MIDST OF A DEEPENING FINANCIAL CRISIS SINCE BECOMING -- LAST WEEK -- THE FIRST MAJOR U.S. CITY TO DEFAULT ON ITS DEBTS SINCE THE NINETEEN THIRTIES DEPRESSION ERA. VOA MIDWEST CORRESPONDENT JOHN PAXSON TAKES A CLOSER LOOK AT SOME OF THE REASONS BEHIND THE DEFAULT IN THIS BACKGROUND REPORT.

VOICE:

FIRST A MAJOR MISCONCEPTION SHOULD BE CLEARED UP. THE PROBLEMS FACING CLEVELAND ARE N-O-T GENERALLY SYMPTOMATIC OF THE CONDITION OF AMERICAN CITIES. RECENT STUDIES SHOW THAT BUT FOR A FEW MAJOR EXCEPTIONS -- NOTABLY NEW YORK CITY AND NEWARK, NEW JERSEY--AMERICAN CITIES ARE AS FINANCIALLY HEALTHY TODAY AS THEY HAVE BEEN IN YEARS.

BUT STILL, THERE IS CLEVELAND, WHICH LAST FRIDAY FOUND ITSELF UNABLE TO PAY OFF FIFTEEN AND A HALF MILLION DOLLARS IN BANK LOANS AND WENT INTO DEFAULT.

ECONOMICALLY, THE ROOTS OF THE CITY'S PROBLEMS STRETCH BACK MANY YEARS. AS IN OTHER AMERICAN CITIES, THE MOBILE MIDDLE CLASS HAS TENDED TO MOVE OUT OF THE CITY FOR THE LESS CROWDED SUBURBS. LIGHT INDUSTRIES HAVE FOLLOWED AND IN RECENT YEARS CLEVELAND HAS FOUND ITS TAX BASE ERODING, ITS REVENUES SHRINKING, AND THE DEMAND FOR ITS PUBLIC SERVICES INCREASING.

BUT CLEVELAND'S PROBLEMS HAVE MORE TO DO WITH POLITICS THAN WITH ECONOMICS. TWO YEARS AGO CLEVELAND ELECTED A THIRTY-YEAR OLD MAYOR NAMED DENNIS KUCINICH WHO BROUGHT TO OFFICE WITH HIM AN EVEN YOUNGER AN LESS EXPERIENCED CABINET. IN HIS CAMPAIGN,

THE MAYOR PROMISED HE WOULD NEVER SELL THE CITY-OWNED MUNICIPAL LIGHT COMPANY WHICH FOR YEARS HAD BEEN LOSING MONEY BUT WHICH HAD PROVIDED LOW-COST ELECTRICITY TO WORKING-CLASS AREAS OF THE CITY, AREAS OF POLITICAL STRENGTH FOR THE MAYOR. THAT, AND THE MAYOR'S OTHER PHILOSOPHIES OF URBAN POPULISM QUICKLY ALIENATED MUCH OF THE CITY'S OLD-GUARD (ESTABLISHED) BUSINESS AND POLITICAL INTERESTS AND THE TWO SIDES--THE MAYOR AND HIS FOES--BECAME BITTERLY DIVIDED.

THE FIRST MAJOR BATTLE CAME LAST AUGUST WHEN ANTI-KUCINICH FORCES ALMOST MANAGED TO HAVE THE MAYOR RECALLED (REMOVED) FROM OFFICE. THEN, JUST A FEW WEEKS AGO, AN AUDIT SHOWED THAT CONTRARY TO THE MAYOR'S CLAIM OF CITY SOLVENCY, CLEVELAND WAS ALMOST BROKE--THAT IT WOULD NOT ONLY BE UNABLE TO PAY THE LOANS WHICH WOULD COME DUE FRIDAY BUT ALSO AN ADDITIONAL FORTY MILLION DOLLARS IN DEBTS DUE EARLY NEXT YEAR.

SCRAMBLING FOR A WAY OUT OF THE CRISIS, THE MAYOR WON AGREEMENT FROM THE BANKS TO EXTEND THE LOANS IF THE CITY WOULD INCREASE ITS INCOME TAX RATES. THE MAYOR TOOK THE PROPOSAL TO THE CITY COUNCIL FOR APPROVAL. BUT THE COUNCIL--CHARGING FISCAL MISMANAGEMENT AND IRRESPONSIBILITY--MOVED TO POLITICALLY DESTROY THE MAYOR. IT AGREED TO THE TAX REFERENDUM BUT ONLY IF THE MAYOR WOULD BREAK HIS CAMPAIGN PROMISE AND SELL THE MUNICIPAL LIGHT COMPANY.

AS THE FRIDAY DEADLINE FOR PAYMENT OF THE LOANS APPROACHED, ALL EFFORTS TO FIND A SOLUTION TO THE PROBLEM FAILED. SO LAST FRIDAY AT MIDNIGHT THE MAYOR AND THE CITY COUNCIL SAT IN THE ORNATE CHAMBERS OF CITY HALL AND WATCHED THE CITY SLIP INTO DEFAULT, NEITHER SIDE HAVING BEEN WILLING TO COMPROMISE CLEVELAND OUT OF CRISIS.